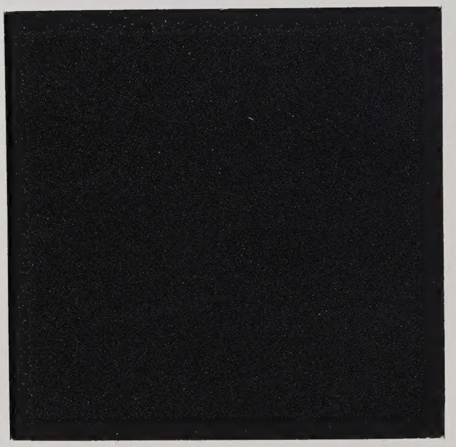
Inter-City Gas Limited
Annual Report 1973



Officers

Robert G. Graham, *President*
Wayne R. Harding, *C.A., Executive Vice-President*
E. P. Rimmer, *P.Eng., Vice-President*
G. H. Lucas, *Vice-President*
Barré W. Hall, *Secretary*

Directors

Robert G. Graham, *Winnipeg, Manitoba*
Wayne R. Harding, *Winnipeg, Manitoba*
Gordon P. Osler, *Toronto, Ontario*
E. P. Rimmer, *Winnipeg, Manitoba*
Alan Sweatman, *Q.C., Winnipeg, Manitoba*
Andrew Sarlos, *Toronto, Ontario*
H. C. Rynard, *Toronto, Ontario*
James W. McCutcheon, *Toronto, Ontario*

Solicitors

Thompson, Dorfman, Sweatman

Auditors

Coopers & Lybrand

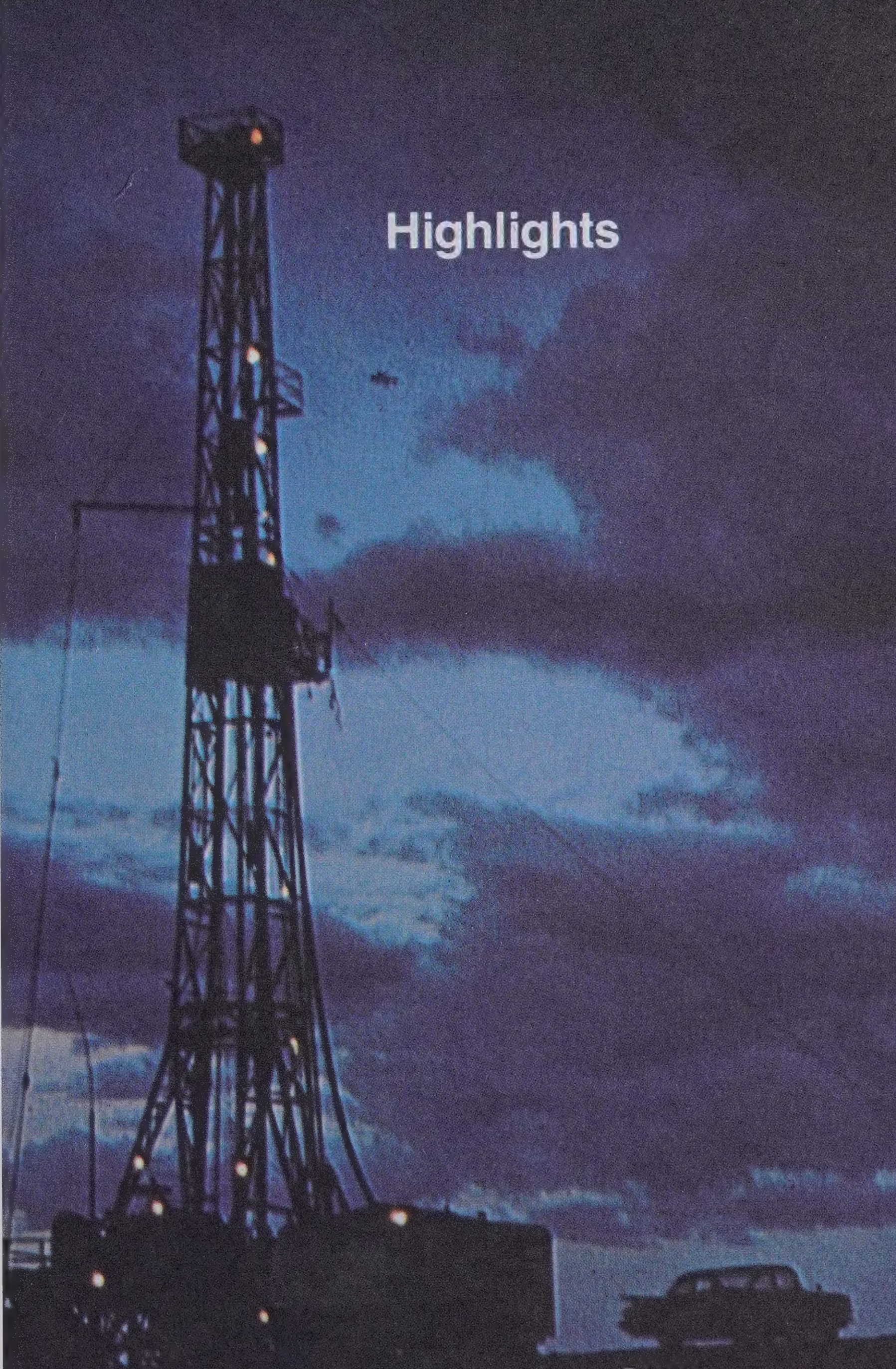
Transfer Agent and Registrar

Canada Permanent Trust Company
Winnipeg, Toronto, Calgary and Vancouver

Head Office

1500 Richardson Building
One Lombard Place, Winnipeg, Manitoba

Highlights



1973	1972	Percent Increase
$32,689,200	$27,196,095	20%
2,284,524	1,542,991	48%
66¢	43¢	53%
12¢	9¢	33%
21,565,495	16,117,152	34%
13,736,724	11,022,079	25%
48,778,384	42,905,674	14%

Highlights

	1973	1972	Percent Increase
For the Year			
Revenue	$32,689,200	$27,196,095	20%
Net Income	2,284,524	1,542,991	48%
Per Common Share	66¢	43¢	53%
Dividend Rate			
Per Common Share	12¢	9¢	33%
At Year End			
Long Term Debt	21,565,495	16,117,152	34%
Shareholders' Equity	13,736,724	11,022,079	25%
Total Assets	48,778,384	42,905,674	14%

President's Message

Consolidated net income for 1973 was $2,284,524 compared with $1,542,991 in 1972. The increase is primarily attributable to a substantial gain in earnings from our equipment manufacturing and distribution operations, and to a reduction in income taxes resulting from expenditures in gas exploration.

Net income per common shares was 66¢ which is a 53 per cent increase over the 43¢ earned in the previous year. Our growth as reflected in earnings per share is indicated by the graph on the opposite page.

Dividends were paid on the common shares at the rate of 12¢ per share in 1973 compared with 9¢ for 1972.

Over the past ten years revenues have grown from $1.5 million to $32.7 million as your company progressed through geographic expansion of gas utility operations, manufacturing and distributing of allied equipment, and recently, by establishing gas and oil exploration operations in both Canada and the United States. The development of our present natural gas resources provides us with the prospect of continuing growth and increasing earnings.

GAS TRANSMISSION AND DISTRIBUTION

During 1973 we sold $18.3 million of natural gas compared with $17.9 million in the previous year. However, there were two signifi-

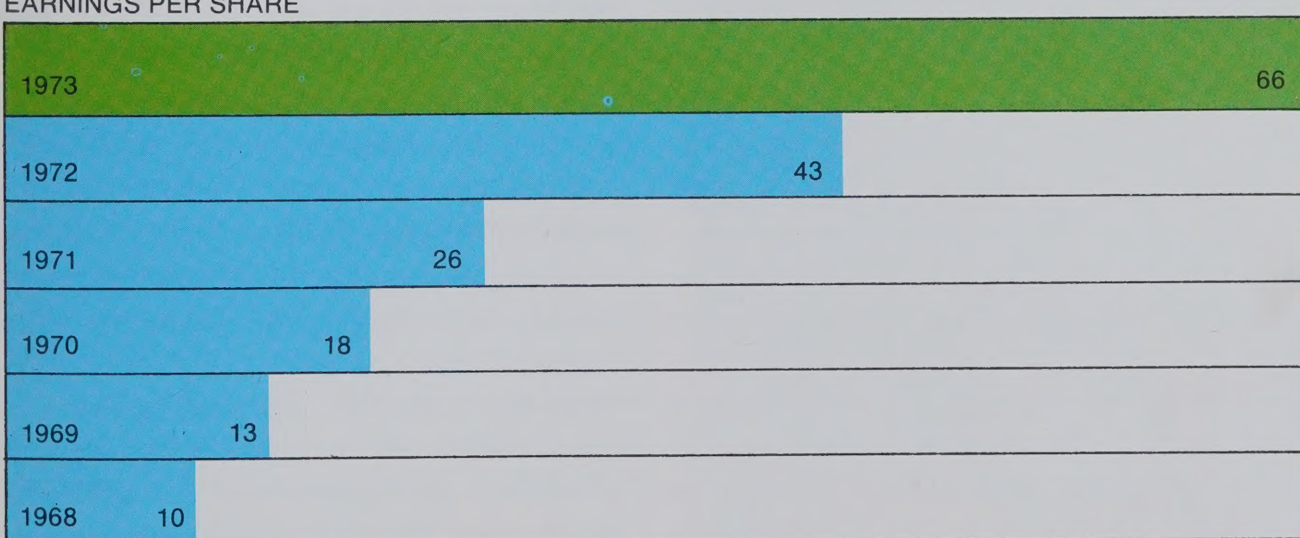
cant factors which contributed to reduce revenue in 1973. Firstly, there was a reduction in the demand of our largest industrial customer due to a strike and secondly, the weather in our service areas was approximately 20 per cent warmer than in 1972.

A significant measure of sales performance for a utility is in the number of new customers added, and sales efforts in 1973 resulted in a 6 per cent increase in the number of customers which we serve. This indicates both a continued development in the communities served by Inter-City, as well as recognition of the benefits of natural gas for home heating and commercial purposes.

Our utility operation now serves 28 communities in Manitoba and Ontario, and 39 communities in Minnesota. $20,186,959 has been invested in distribution systems within these communities and these systems are capable of servicing 45,000 customers compared with the 25,000 customers now receiving service. In addition to the distribution systems, we operate 462 miles of transmission line at a cost of $12,081,606. Major transmission systems are 170 miles of 12 inch line which runs from TransCanada PipeLines to International Falls, Minnesota and the 43 miles of pipeline which runs from Moosomin, Saskatchewan to Dauphin, Manitoba, with the balance of our pipeline mileage connecting the communities we serve with the major pipeline supplier in the particular area.

During the year we sold 27.5 billion cubic feet

EARNINGS PER SHARE



of natural gas which is purchased under contract from TransCanada PipeLines, Great Lakes Transmission Company, Midwestern Gas Transmission Company and Northern Natural Gas Company. Our current gas supply contracts with these companies allows us to continue to add residential and small commercial customers to our system.

The current energy situation demands that the most efficient use be made of each of our energy sources. Natural gas is a much more efficient source of energy for home heating than fuel oil or than electricity thermally generated. Accordingly, the continued expansion of natural gas distribution for domestic consumption is being promoted and Inter-City continues to endeavour to add new communities to its distribution system where operating economics warrants additional investment.

EQUIPMENT DIVISION

As well as selling natural gas your Company has now become a significant manufacturer and distributor of equipment which utilizes natural gas and to a lesser degree oil and electricity. During 1973 we manufactured a total of 51,258 furnaces, unit heaters, construction heaters and make-up air heating units and 1,812 water softeners.

Approximately 36 per cent of this volume was sold in Ontario, 19 per cent in Manitoba, 6 per cent in Saskatchewan, 17 per cent in Alberta and 22 per cent in British Columbia. We have not as yet developed major sales activity in Quebec or the Maritime provinces.

Factories are located in Winnipeg, Manitoba and St. Catharines, Ontario with sales offices and warehouses in Victoria, Vancouver, Calgary, Edmonon, Winnipeg and Toronto.

Furnaces are manufactured and distributed through our organization under the brand names "Furnasman," "Bulloch's" and "Anthes." In addition, our factories manufacture furnaces for a number of mass merchants under their own brands, and our distribution outlets also carry many products made by

other manufacturers.

We are pleased with the 1973 results of this division which realized a contribution to profits in excess of $523,000 compared with $69,000 in 1972. As the integration of personnel and product lines of the three predecessor companies that comprise our equipment division was also achieved during the year, we believe that the 1973 results demonstrate the increasing potential of this division.

EXPLORATION AND DEVELOPMENT

It is typical of the industry that the discovery and development of resource properties requires large capital investment without immediate return. Revenue contribution from this division will commence in 1974 from the sale of our natural gas in West Virginia and in Many Islands, Alberta.

In 1973 we drilled 38 wells, 11 of which are in West Virginia, U.S.A. and the balance are in Alberta. This program resulted in 27 gas wells and 3 oil wells.

In West Virginia, we now have nine gas wells, one of which will also produce oil in marketable quantities, and five oil wells. Arrangements are being made to move the gas and oil to market during 1974. The West Virginia project encompasses seven separate areas and due to weather conditions, testing of all areas has not been completed.

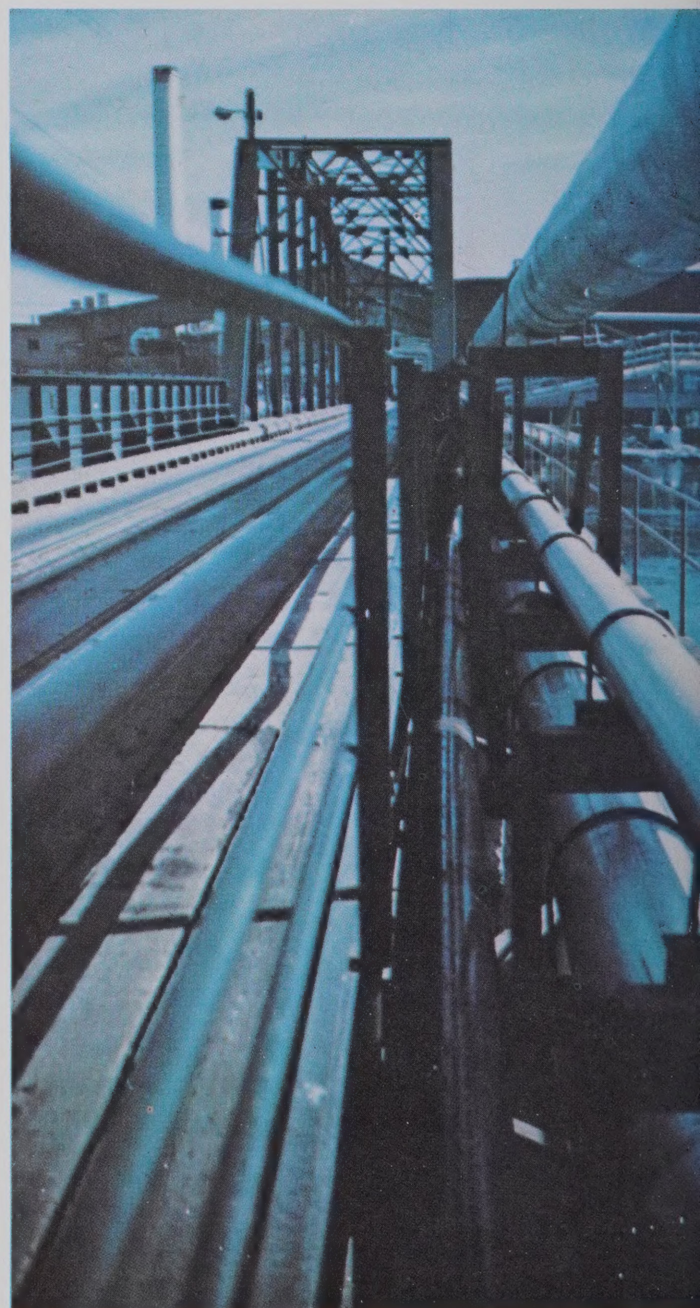
In Alberta, the 1973 total of 27 attempts resulted in 20 gas wells. We now have an interest in 280,000 gross or 171,000 net acres in Alberta on which 84 wells are presently located. These interests are primarily located in five separate project areas.

Of these five project areas, one is currently in service delivering five million cubic feet per day, three are being tested further to establish the extent of the gas fields as a basis for further development, and the other is the Many Islands area which will be developed during 1974. The Many Islands development will require drilling 136 wells and installing gathering and compression facilities. Of the 136 wells, 60 are to be the sole account of Inter-City and the remainder are to be paid for as a 50 per cent interest. Initial deliveries to commence in November 1974 will be approximately 28 million cubic feet per day.

We are also currently participating with Mobil Oil Company and others in a deep foothills test in the Embarras River area of Alberta.

FINANCING

During the year, the Company invested a total of $4,003,452 in utility and resource properties. This expenditure, provided out of cash flow and bank credit increased short-term borrowing. To effect repayment of these borrowings, a $3,000,000 first mortgage bond issue was negotiated during 1973 and placed



early in 1974. This 20 year mortgage bond bears an interest rate of 9½%.

A mid-term bank loan of $2,600,000 (originally incurred to help finance our transmission line to International Falls) which matured, December 31, 1973 was re-negotiated to provide for repayment over the next seven years. An additional mid-term bank loan of $2,000,000 for the equipment division was negotiated during 1973. This loan is to be repaid in equal instalments in the years 1975 to 1980 with a final payment of $600,000 due in 1981. These mid-term loans are subject to repayment prior to maturity at the option of the Company.

MANAGEMENT CHANGES

During 1973, Richard D. Dahnke was appointed Director of Utility Operations, Hewitt Douglas, C.A., was named Corporate Controller, and W. Gordon Kelly was appointed Vice President Marketing of our subsidiary Inter-City Manufacturing Ltd.

On Behalf of the
Board of Directors.

British Columbia
Alberta
Saskatchewan
Tweedie
Barrhead
Edmonton
Bigoray
Embarras River
Sedgewick
Garden Plains
Twining
Chinook
Calgary
Vancouver
Victoria
Abbey
Hilda
Many Islands
Medicine Hat
Medicine Hat South

Transmission Systems
Branch Offices (Gas Distribution)
Distribution Systems
Branch Offices (Equipment Distribution)
Exploration & Development
Manufacturing Plants
Other Major Gas Pipelines
Manitoba
Ontario
Dauphin
Portage La Prairie
Winnipeg
Steinbach
Fort Frances
International Falls
Thief River Falls
Dakota
Grand Rapids
Cloquet
Minnesota
Toronto
St. Catharines

10 Year Review

	1973	1972	1971	1970	1969	1968	1967	1966	1965	1964
Year End Customers										
Residential	21,619	20,340	19,325	17,536	16,410	15,381	14,679	10,977	5,668	4,705
Commercial	3,612	3,387	3,049	2,827	2,671	2,493	2,370	1,730	1,063	881
Industrial	35	41	39	41	38	37	33	30	26	27
Interruptible	151	184	202	197	197	190	191	111	—	—
Large Contract	34	34	29	28	25	25	24	18	9	8
Total	25,451	23,986	22,644	20,629	19,341	18,126	17,297	12,866	6,766	5,621
Potential Customers										
Facing Mains	44,870	42,746	42,407	34,880	34,518	34,003	34,819	29,241	12,902	8,317
MCF Sales										
Residential	3,154,825	3,501,523	2,774,551	2,741,806	2,405,084	2,295,167	2,030,843	1,506,010	843,864	687,695
Commercial	2,328,010	2,493,201	1,907,707	1,829,431	1,524,522	1,387,853	1,285,689	881,912	589,278	478,406
Industrial	130,626	124,476	119,577	120,345	103,227	98,680	94,575	81,890	72,459	64,062
Interruptible	876,203	822,642	726,347	729,106	730,629	659,573	393,774	249,681	—	—
Special	21,089,020	22,737,772	20,375,487	10,966,489	8,105,189	8,857,280	6,860,361	6,983,967	1,047,478	962,949
Total	27,578,684	29,679,614	25,903,669	16,387,177	12,868,651	13,298,553	10,665,242	9,703,460	2,553,079	2,193,112
Degree Day										
Deficiency	9,140	11,820	10,928	10,394	10,185	9,853	10,920	11,059	11,505	10,887
Total Contracted										
Demand-MCF's	104,174	105,563	103,564	101,780	64,117	46,813	41,988	37,903	20,700	17,900
Average Use per										
Customer (Note 1) — MCF's										
Residential	152.63	179.5	155.3	161.3	152.5	158.4	154.1	151.2	171.0	158.7
Commercial	674.39	781.6	660.8	659.3	592.9	487.5	593.3	573.0	638.1	592.1
Gas Revenue-$										
Residential	4,060,124	3,981,530	3,460,905	3,203,920	2,838,125	2,532,214	2,311,799	1,714,506	721,848	601,361
Commercial	2,241,636	2,213,330	1,772,478	1,634,038	1,408,744	1,268,654	1,123,854	865,011	433,941	355,708
Industrial	112,653	90,025	87,378	93,539	72,095	66,598	66,165	54,879	48,859	42,746
Interruptible	519,633	493,187	439,536	470,595	474,517	422,251	276,339	162,292	—	—
Large Contract	11,389,926	11,102,160	9,619,690	4,883,052	3,308,234	3,225,848	2,653,590	2,442,494	564,198	508,970
Total	18,323,972	17,880,232	15,379,987	10,285,144	8,101,715	7,515,565	6,431,747	5,239,182	1,768,846	1,508,785
Average Revenue Per MCF										
Residential	$1.289	$1.137	$1.247	$1.169	$1.180	$1.103	$1.138	$1.138	$ .855	$ .875
Commercial	.963	.888	.929	.893	.924	.914	.874	.981	.737	.744
Industrial	.862	.723	.731	.778	.698	.675	.700	.671	.674	.667
Interruptible	.593	.600	.605	.645	.649	.640	.702	.650	—	—
Large Contract	.540	.488	.472	.445	.408	.364	.421	.350	.539	.529
Total	.664	.602	.594	.628	.630	.565	.603	.540	.693	.688

Note: 1)Average use per customer is based upon the effective number of customers serviced during the year.

	1973	1972	1971	1970	1969	1968	1967	1966	1965	1964
Fixed Assets	$	$	$	$	$	$	$	$	$	$
Utility and Pipelines	33,178,081	31,083,189	28,832,619	25,505,143	17,266,956	15,296,379	15,124,876	11,375,363	6,013,640	4,072,038
Manufacturing	1,036,768	978,149	656,929	598,024	572,938	—	—	—	—	—
Oil and Gas Properties	5,073,333	3,164,773	623,352	—	—	—	—	—	—	—
Total	39,288,182	35,226,111	30,112,900	26,103,167	17,839,894	15,296,379	15,124,876	11,375,363	6,013,640	4,072,038
Revenue										
Sale of natural gas	18,323,972	17,880,232	15,379,987	10,323,562	8,134,631	7,547,235	6,459,562	5,539,203	1,768,846	1,508,785
Sale of manufactured goods	14,018,432	9,132,447	6,762,515	2,948,818	2,499,923	—	—	—	—	—
Other Income	346,796	183,416	116,792	130,815	94,003	159,348	94,909	149,402	27,160	1,959
Total	32,689,200	27,196,095	22,259,294	13,403,195	10,728,557	7,706,583	6,554,471	5,688,605	1,796,006	1,510,744
Expenses										
Natural gas purchased	11,466,800	11,490,628	10,234,118	6,684,504	5,104,157	4,903,122	4,010,281	3,593,767	967,915	836,947
Cost of manufactured goods sold	11,118,241	7,488,332	5,707,431	2,541,428	2,013,251	—	—	—	—	—
Operation & maintenance	3,886,654	3,098,489	2,377,718	1,474,654	1,320,482	848,043	812,035	706,496	197,398	170,156
Municipal taxes	825,962	756,117	628,289	508,993	492,359	453,296	375,799	302,591	64,946	62,296
Depreciation	796,898	667,992	568,364	410,490	371,372	329,770	292,390	290,370	113,003	98,038
Total	28,094,555	23,501,558	19,515,920	11,620,069	9,301,621	6,534,231	5,490,505	4,893,224	1,343,262	1,167,437
	4,594,645	3,694,537	2,743,374	1,783,126	1,426,936	1,172,352	1,063,966	795,381	452,744	343,307
Income Deductions										
Interest on funded debt	1,725,004	1,023,372	1,173,872	609,827	434,682	368,582	360,561	283,113	132,334	98,750
Other interest	607,511	635,181	340,977	213,543	294,671	303,101	228,755	148,201	27,898	14,764
Amortization of financing expenses	58,847	55,427	27,814	28,444	23,136	31,493	33,480	28,682	10,029	9,246
Interest charged to construction	(254,880)	(120,208)	(41,567)	(9,360)	(13,538)	(17,182)	(19,145)	(16,166)	(52,983)	(10,944)
	2,136,482	1,593,772	1,501,096	842,454	738,951	685,994	603,651	443,830	117,278	111,816
	2,458,163	2,100,765	1,242,278	940,672	687,985	486,358	460,315	351,551	335,466	231,491
Provision for Income Taxes	170,919	547,125	254,438	264,290	98,841	10,986	10,264	7,700	3,632	17,581
	2,287,244	1,553,640	987,840	676,382	589,144	475,372	450,051	343,851	331,834	213,910
Minority Interest	2,720	10,649	21,830	—	30,273	1,043	1,874	1,388	—	—
Consolidated Net Income for the Year	2,284,524	1,542,991	966,010	676,382	558,871	474,329	448,177	342,463	331,834	213,910
Dividends Paid										
Preferred Shares	352,488	362,399	292,488	220,557	226,394	229,750	229,750	73,500	—	—
Common Shares	378,463	247,906	198,427	158,269	124,354	119,330	119,330	119,330	109,387	99,442
Earnings per Common Share	$ .66	$ .43	$ .26	$ .18	$ .13	$ .10	$ .09	$ .11	$ .14	$ .11

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Inter-City Gas Limited and its subsidiary companies as at December 31, 1973 and the consolidated statements of income, retained earnings and source and use of working capital for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1973 and the results of their operations and the source and use of their working capital for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Coopers & Lybrand.

CHARTERED ACCOUNTANTS

Winnipeg, Manitoba
March 15, 1974

Consolidated Statement of Income

for the year ended December 31, 1973

	1973 $	1972 $
Revenue		
Sale of natural gas	18,323,972	17,880,232
Sale of manufactured goods	14,018,432	9,132,447
Other	346,796	183,416
	32,689,200	27,196,095
Expenses		
Natural gas purchased	11,466,800	11,490,628
Cost of manufactured goods sold	11,118,241	7,488,332
Operation and maintenance (note 10)	3,886,654	3,098,489
Municipal taxes	825,962	756,117
Depreciation and depletion	796,898	667,992
	28,094,555	23,501,558
	4,594,645	3,694,537
Income deductions		
Interest on long-term debt	1,725,004	1,023,372
Other interest	607,511	635,181
Amortization of financing expenses	58,847	55,427
Interest capitalized	(254,880)	(120,208)
	2,136,482	1,593,772
	2,458,163	2,100,765
Provision for Income Taxes (note 8)	170,919	547,125
	2,287,244	1,553,640
Minority Interest	2,720	10,649
Consolidated Net Income for the Year	2,284,524	1,542,991
Net Income per Common Share (note 9)	66 cents	43 cents

Consolidated Balance Sheet

as at December 31, 1973

ASSETS	1973 $	1972 $
Current Assets		
Cash	642,712	579,579
Accounts receivable, less provision for doubtful accounts (note 2)		
— Trade and sundry	6,910,887	5,737,286
— Conditional sales contracts	257,296	254,223
Income taxes recoverable	389,317	—
Inventories — at the lower of cost or net realizable value (notes 2 and 3)	3,858,560	2,999,825
Prepaid expenses and deposits	136,933	101,441
	12,195,705	9,672,354
Investments — at cost		
Advances to the trustees of share purchase plans (note 4)	503,978	283,767
Other	30,823	42,438
	534,801	326,205
Fixed Assets (note 5)		
Property, plant and equipment — at cost	39,288,182	35,226,111
Accumulated depreciation and depletion	4,643,212	3,952,559
	34,644,970	31,273,552
Deferred Charges — at cost, less amortization		
Financing expenses	826,396	850,557
Natural gas market development	302,380	304,792
Rate hearings and other	274,132	277,994
	1,402,908	1,433,343
Excess of Cost of Investment in Shares of Subsidiary Companies over Book Value of Net Assets at Date of Acquisition (note 1)	—	200,220
	48,778,384	42,905,674

Signed on Behalf of the Board

Director

Director

LIABILITIES	1973 $	1972 $
Current Liabilities		
Bank advances (note 2)	7,819,553	7,468,862
Accounts payable and accrued liabilities	4,111,956	4,602,487
Income taxes payable	147,134	362,417
Deferred income	28,882	25,525
Current portion of long-term debt	898,785	2,869,500
Customers' security deposits	204,061	193,661
	13,210,371	15,522,452
Customers' Contributions in Aid of Construction	237,205	214,136
Long-Term Debt (note 6)	21,565,495	16,117,152
Minority Interest in Subsidiary Companies	28,589	29,855
	35,041,660	31,883,595
SHAREHOLDERS' EQUITY		
Capital Stock (note 7)		
Authorized		
— 138,308 cumulative redeemable first preference shares of the par value of $20 each, issuable in series		
— 281,958 cumulative redeemable second preference shares of the par value of $20 each, issuable in series		
— 10,000,000 common shares of no par value		
Issued and fully paid		
— 58,308 5¼% Series A first preference shares	1,166,160	1,202,220
106,958 6½% Series A second preference shares	2,139,160	2,205,160
— 100,000 7½% Series B second preference shares	2,000,000	2,000,000
— 3,410,696 Common shares	3,796,958	2,367,013
	9,102,278	7,774,393
Retained Earnings	4,634,446	3,247,686
	13,736,724	11,022,079
	48,778,384	42,905,674

Consolidated Statement of Source and Use of Working Capital

for the year ended December 31, 1973

	1973 $	1972 $
Source of Working Capital		
Provided from operations	3,210,087	2,340,923
Customers' contributions in aid of construction	23,069	18,130
Term bank loan and interim financing	6,130,000	3,280,125
Recovery of income taxes	57,359	—
Proceeds from issue of common shares	1,429,945	324,590
	10,850,460	5,963,768
Use of Working Capital		
Purchase of fixed assets — net	2,206,692	2,675,664
Investment in gas and oil properties	1,965,449	2,541,421
Increase in investments	208,596	291
Redemption of long-term debt	681,657	2,828,963
Dividends paid to shareholders	730,951	610,305
Redemption of preference shares	102,060	108,580
Purchase of shares of subsidiary companies	27,939	291,548
Financing expenses	37,668	153,081
Natural gas market development program	34,511	—
Other deferred charges	19,505	(9,211)
Dividends paid to minority shareholders	—	9,044
	6,015,028	9,209,686
Increase (Decrease) in Working Capital	4,835,432	(3,245,918)
Working Capital Deficiency — Beginning of Year	5,850,098	2,604,180
Working Capital Deficiency — End of Year	1,014,666	5,850,098

Consolidated Statement of Retained Earnings

for the year ended December 31, 1973

	1973 $	1972 $
Balance — Beginning of Year	3,247,686	2,315,000
Excess of cost of investment in shares of subsidiary companies over book value written off (note 1)	(224,172)	—
Adjustment of prior years' income taxes	57,359	—
Consolidated net income for the year	2,284,524	1,542,991
	5,365,397	3,857,991
Dividends paid —		
5¼% Series A first perference shares	63,117	65,069
6½% Series A second preference shares	139,371	147,330
7½% Series B second preference shares	150,000	150,000
Common shares	378,463	247,906
	730,951	610,305
Balance — End of Year	4,634,446	3,247,686

Notes to Consolidated Financial Statements

for the year ended December 31, 1973

1. ACCOUNTING POLICIES

Consolidation

The consolidated financial statements include the assets, liabilities and operating results of all subsidiary companies. The accounts of subsidiary companies are consolidated from the dates of acquisition on the basis of purchase accounting. The excess of cost of investment in shares of subsidiary companies over book value has been written off to retained earnings.

Foreign Exchange

The accounts of subsidiaries and divisions operating in the United States are translated in Canadian dollars at the rates of exchange on the balance sheet date for current assets and liabilities, on the date of the transaction for other balance sheet accounts and at the average rate for the year for revenues and expenses.

Fixed Assets

Property, plant and equipment is stated at cost. The cost of gas utility transmission and distribution systems includes interest and overhead amounts capitalized during the construction period. All costs related to the acquisition of, exploration for and development of gas and oil properties, including interest, are capitalized on the basis of full cost accounting.

Depreciation and Amortization

Depreciation of fixed assets other than oil and gas properties is provided on a straight-line method at rates varying between 1.7% and 30.0% based on the estimated useful life of those assets. Amortization of financing expenses and other deferred charges is provided on the straight-line method over periods of ten and twenty years.

Income Taxes

The Public Utilities Board of Manitoba has directed certain subsidiary companies to provide only those income taxes currently payable in its financial statements and in calculating its rate of return for rate making purposes. The company follows the same policy for its other regulated subsidiaries.

In addition, certain subsidiaries involved in oil and gas exploration follow the general practice in that industry of not providing for deferred taxes with respect to exploration, development and acquisition costs.

2. SECURITY FOR BANK LOANS

Current bank loans are generally secured by assignment of accounts receivable and the pledge of inventories. Term loans are secured by the pledge of shares in certain subsidiary companies, an assignment of the company's interest in various agreements and a collateral demand debenture in the amount of $3,500,000 securing a floating charge on the non-utility subsidiary companies' assets.

3. INVENTORIES

Inventories are classified as follows:

	1973 $	1972 $
Raw materials	759,381	764,132
Work in process	471,866	251,989
Finished goods	2,199,239	1,487,476
Materials and supplies	428,074	496,228
	3,858,560	2,999,825

4. EMPLOYEE SHARE PURCHASE PLAN

Under the terms of employee share purchase plans, the trustees of the plans purchased 46,000 common shares from advances made to them in the amount of $235,380. The balance due from the trustees at December 31, 1973 amounted to $503,978 (1972 — $283,767).

5. FIXED ASSETS

Property, plant and equipment is classified as follows:

	Cost $	Accumulated Depreciation and Depletion $	1973 $	1972 $
Utility transmission and distribution systems	32,097,828	4,184,536	27,913,292	26,655,207
Gas and oil properties	5,073,333	72,458	5,000,875	3,106,203
Land and buildings	581,309	8,216	573,093	424,992
Machinery, equipment and furniture	529,831	288,520	241,311	134,309
Drilling equipment and gathering systems	1,005,881	89,482	916,399	952,841
	39,288,182	4,643,212	34,644,970	31,273,552

6. LONG-TERM DEBT

The details of long-term debt of the company and its consolidated subsidiaries are as follows:

	1973		1972	
	Current $	Long-term $	Current $	Long-term $
Inter-City Gas Limited				
Term bank loan bearing interest at 1% above bank's prime rate repayable in monthly instalments of $5,000 commencing December, 1974, final balance due December, 1979	5,000	595,000*	—	600,000*
Term bank loan bearing interest at 1% above bank's prime rate repayable in semi-annual instalments of $100,000 due March, 1975	200,000	100,000	100,000	400,000
7% Debentures — Series B maturing 1982	74,000	1,075,000	50,000	1,150,000
8% First Mortgage Bonds — Series A maturing 1989	100,000	3,650,000*	—	3,750,000*
Interim financing (note 10)	—	1,200,000	—	—
Inter-City Gas Utilities Ltd.				
6% First Mortgage Bonds — Series A maturing 1977	37,500	112,500	37,500	150,000
6% First Mortgage Bonds — Series B maturing 1982	25,000	300,000	25,000	325,000
6% First Mortgage Bonds — Series C maturing 1985	57,000	1,701,000	57,000	1,758,000
7% Debentures — Series A maturing 1979	—	405,000	—	435,000
Inter-City Pipelines Ltd.				
Term bank loan bearing interest at 1% above bank's prime rate repayable in semi-annual instalments of $370,000 due May, 1980	370,000	2,230,000	2,600,000	—
Inter-City Minnesota Pipelines Ltd. And ICG Transmission Limited				
9½% Joint and Several Promissory Note due January, 1991 repayable in annual instalments of $265,000 commencing January, 1975, secured by 8% Joint and Several First Mortgage Bonds maturing January, 1991	—	4,500,000*	—	4,500,000*
Minell Pipeline Ltd.				
Term bank loan bearing interest at 3% above bank's prime rate repayable in monthly instalments of $5,833 commencing January, 1975 with final balance due February, 1980	—	700,000*	—	—
Inter-City Manufacturing Ltd.				
Term bank loan bearing interest at 1% above bank's prime rate repayable in semi-annual instalments of $120,000 commencing May, 1975, final balance due November, 1980	—	2,000,000	—	—
Term bank loan bearing interest at 1% above bank's prime rate repayable by monthly instalments of $22,500 commencing December, 1974, final balance due December, 1979	22,500	2,677,500	—	2,700,000*
*Premium on United States funds	7,785	319,495	—	349,152
	898,785	21,565,495	2,869,500	16,117,152

Under the provisions of the various indentures the company is required to make the following sinking fund instalments and term bank loan repayments during the next five years:

Year	$
1974	891,000
1975	1,699,500
1976	1,649,500
1977	1,649,500
1978	1,649,500
	7,539,000

7. CAPITAL STOCK

(a) By supplementary letters patent dated June 18, 1973, the authorized capital of the company was increased by subdividing each common share of no par value, whether issued or unissued, into two shares of no par value so that the authorized capital of the company shall consist of 10,000,000 shares of no par value of which 3,410,696 are issued and outstanding at December 31, 1973.

(b) During the year a total of 647,880 common shares were issued for a consideration of $1,429,945, of which $1,284,945 (604,680 shares) was received on the exercise of share purchase warrants, $28,620 (21,200 shares) was received on the exercise of employee stock options and $116,380 (22,000 shares) was advanced to the employees' share purchase plan.

(c) The company has reserved 600,000 common shares on the exercise of share purchase warrants at $3.00 per share up to July 31, 1976 and at $3.50 per share up to July 31, 1981. During the year warrants were exercised for 604,680 common shares at $2.125.

(d) The company is required by its letters patent to purchase annually in the market, within certain limits, 3% of the outstanding 5¼% Series A first preference shares, of which 1,803 were purchased and cancelled during 1973 and 3% of the outstanding 6½% Series A second preference shares of which 3,300 were purchased and cancelled during 1973.

8. DEFERRED INCOME TAXES

As explained in note 1 the company does not provide for deferred income taxes in respect of certain timing differences between accounting income and taxable income.

If deferred tax accounting had been followed in respect of all timing differences between amounts reported as taxable income and amounts reported as accounting income, the provision for income taxes would have increased by $1,177,900 (1972 — $506,800). At December 31, 1973 the accumulated tax reductions resulting from timing differences amounted to approximately $3,740,200 (1972 — $2,562,300).

9. NET INCOME PER COMMON SHARE

The income per common share is calculated on a weighted average number of shares outstanding during the respective years. Based on the assumption that the share warrants for 600,000 common shares had been exercised on January 1, 1973 and the proceeds received therefrom earned a rate of return equivalent to that earned on the book value of the common shareholders' equity in 1973 there will be no dilution of the 1973 net income per share. The amount of imputed income was $412,000.

10. SUPPLEMENTARY INFORMATION

		1973 $	1972 $
(a)	Included in other income are the following amounts:		
	Income from investments	8,742	8,927
	Discount on shares and debentures purchased for cancellation	9,667	10,603
(b)	Included in operating and maintenance expense are the following amounts:		
	Amortization—natural gas market development	31,693	33,960
	—rate hearings and other	31,578	29,904
	The aggregate remuneration paid to directors and senior officers of the company in their capacity as director, officer or employee	197,250	178,283

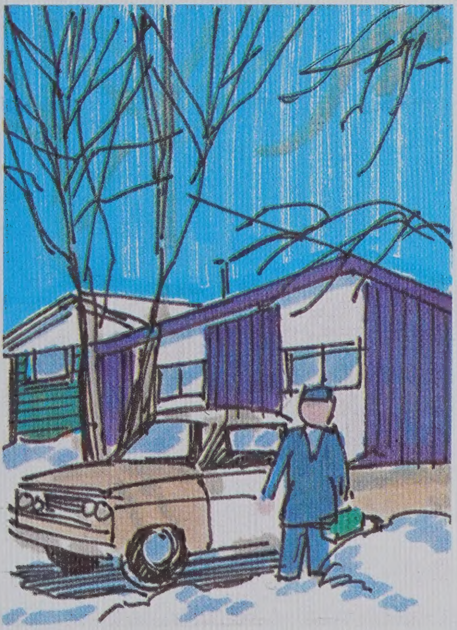
11. COMMITMENTS

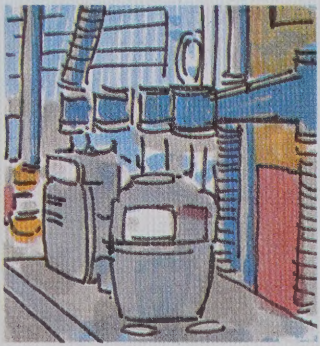
(a) Under the terms of the agreement whereby the company purchased 51% of the outstanding shares of Furnasman Supply Ltd., it is committed to purchase the remaining 49% on April 30, 1975 for a consideration calculated on the earnings of that company during the four years ending December 31, 1974. In addition, the balance of the purchase price, in respect of the 51% of the shares currently held, is payable over a four-year period ending April 30, 1975 in either cash or shares at the option of the company and is subject to a maximum consideration of $123,000 of which $16,590 was paid in cash during 1973 for a total paid to date of $38,362.

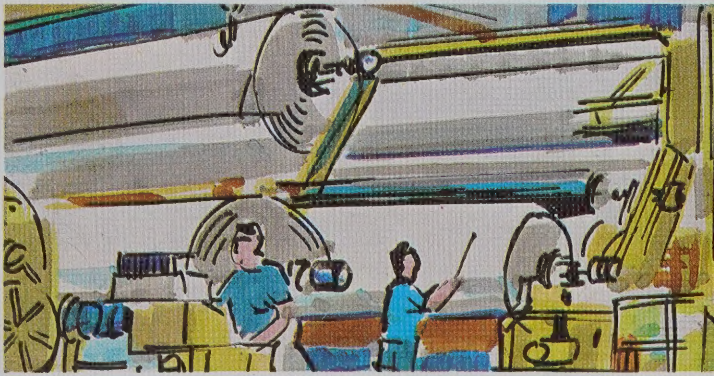
(b) On February 1, 1974 the company issued $2,000,000 (U.S. funds) First Mortgage Bonds Series B and $1,000,000 First Mortgage Bonds Series C bearing interest at 9½% and maturing on February 1, 1994.
The proceeds of this financing was used to repay interim financing of $1,200,000 and repay current bank loans of $1,800,000.

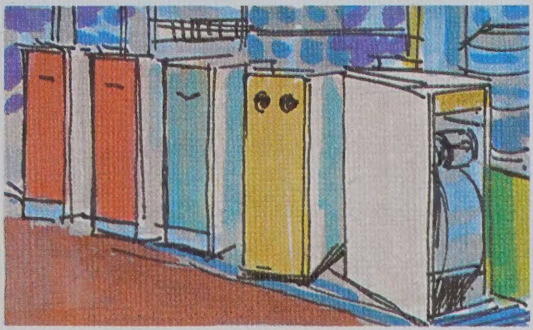
interim report june 1973

inter-city gas limited and subsidiary companies









president's message

I am pleased to report the continued growth of your company over the first six months of 1973. First quarter results at March 31st showed an 18% increase in earnings per common share over last year. The accompanying statement of earnings for the first half of 1973 shows an improvement in this trend to 33% per common share over the same period last year. This represents 24.3c per common share, after giving effect to the 2 for 1 stock split June 29th.

Again, the increase in earnings has been reflected in your dividends, which are up 33% to 12c per common share.

Earnings growth has been maintained by broadening the scope of operations to encompass a greater share of the total energy market. The following comments outline our progress in each division during the first six months of 1973.

GAS DISTRIBUTION AND TRANSMISSION

* We sold an increased volume of gas in spite of the weather being 20% warmer than last year.

* Transmission facilities were expanded in March through the purchase of a pipeline connecting the TransCanada main transmission line with the Dauphin region of Manitoba. This purchase has reduced the cost of delivering gas to this area.

* In July, The Public Utilities Board approved an application to pass on to consumers the effects of changes in our cost of gas in Manitoba. With this decision in favor of allowing us to pass on increased costs, we anticipate continuing profitability in this division.

GAS AND OIL HEATING EQUIPMENT

* Since adding a manufacturing plant at St. Catherines during the latter part of 1972, we have developed a substantial current and future market in Eastern Canada. Sales of warm air heating equipment have increased by 83% over the same period last year.

GAS EXPLORATION

* During the six months, we participated in drilling an additional 13 gas wells, 11 of which are proven gas producers. We now have an interest in 75 gas wells.

* Your company owns in excess of 137 billion cubic feet of natural gas reserves. These gas reserves represent a significant additional common share value which is not currently reflected in earnings. These reserves are not yet committed and do not form a part of our present natural gas supplies with which we serve our utility customers.

The outlook for the remainder of the year appears favorable for maintaining the growth trend established in the first half.

R. G. Graham

President

consolidated statement of income

for the Six Months Ended June 30, 1973	1973	1972
REVENUE		
Sale of natural gas	$ 10,043,033	$ 9,422,102
Sale of manufactured goods	4,865,560	2,653,946
Rental and finance plan income	135,752	74,264
	15,044,345	12,150,312
EXPENSES		
Natural gas purchased	6,331,023	6,048,040
Cost of manufactured goods sold	3,773,755	2,289,733
Operation and maintenance	1,933,620	1,291,739
Municipal taxes	439,909	378,777
Depreciation	377,307	329,122
	12,855,614	10,337,411
	2,188,731	1,812,901
INCOME DEDUCTIONS		
Interest on funded debt	733,510	605,452
Other interest	294,846	160,526
Amortization of financing expenses	21,764	49,050
Interest Capitalized	(98,335)	–
	951,785	815,028
	1,236,946	997,873
PROVISION FOR INCOME TAXES	357,000	327,510
	879,946	670,363
MINORITY INTEREST	16,690	5,733
CONSOLIDATED NET INCOME FOR THE SIX MONTHS	863,256	664,630
NET INCOME PER COMMON SHARE	24.3c	18.0c

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consolidated statement of source and use of working capital

for the Six Months Ended June 30, 1973	1973	1972
SOURCE OF WORKING CAPITAL		
Consolidated net income for the six months	$ 863,256	$ 664,630
Items not affecting working capital		
- depreciation	377,307	329,122
- amortization	54,289	80,545
- minority interest	16,690	5,733
Provided from operations	1,311,542	1,080,030
Proceeds of term bank loan	700,000	—
Customers' contributions in aid of construction	3,009	5,188
Proceeds from issue of common shares	353,987	108,905
Realization on investments	—	180,792
	2,368,538	1,374,915
USE OF WORKING CAPITAL		
Purchase of fixed assets - net	1,138,954	1,138,443
Investment in natural gas rights and development costs	560,370	296,860
Redemption of funded debt	212,823	36,852
Dividends paid to shareholders	350,329	305,399
Redemption of preference shares	61,000	5,500
Purchase of shares of subsidiary companies	20,450	286,273
Financing and rate hearing expenses	—	9,616
Natural gas market development program	4,357	79,281
Dividends paid to minority shareholders	—	9,045
Increase in other investments	125,685	—
	2,473,968	2,167,269
DECREASE IN WORKING CAPITAL	105,430	792,354
WORKING CAPITAL DEFICIENCY - December 31, 1972	5,871,977	2,804,180
Adjustment to current portion of funded debt	100,000	200,000
	5,971,977	2,604,180
WORKING CAPITAL DEFICIENCY - June 30, 1973	6,077,407	3,396,534